

MNI RBA Review - November 2022

Meeting Date: Tuesday 1 November 2022

Link To Statement: <https://www.rba.gov.au/media-releases/2022/mr-22-36.html>

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MNI POV (Point of View): Balancing Higher Inflation And Slower Growth

The RBA delivered the expected 25bp hike on November 1 bringing rates to 2.85%, the highest since April 2013. The key parts of the statement were mainly unchanged with policy to be determined by “incoming data”, the Board being “resolute” to bring inflation back to target while keeping the economy on an “even keel” but the outlook is “clouded in uncertainty”. The November statement did include some of the forecasts that will be updated in the “Statement on Monetary Policy” published on November 4.

The RBA's end-2022 CPI inflation expectations have been revised up to 8% (August forecast 7.75%) with inflation moderating over 2023 to a higher end-year rate of 4.75% (4.3% previously), and end-2024 revised up to “a little above 3 per cent”, in other words still above target. The Board expects wages to increase further in response to inflation and the tight labour market. But GDP growth was revised down and “is expected to moderate over the year ahead”, due to weaker global growth, the end of the Covid-services bounce and the impact on households of tighter monetary policy. GDP is forecast to end 2022 at 3% (previously 3.2%), and 1.5% in 2023 (previously 1.8%) and 2024 (1.7%), so growth is not expected to pick up again by the end of the forecast horizon.

These revised inflation forecasts show that the RBA expects inflation to remain above the 2-3% target band until at least the end of 2024. At his speech the evening after the meeting, Governor Lowe stated that inflation is expected to begin to decline “early next year”. This suggests that monetary policy tightening is likely to continue into 2023. With inflation above target for over three years, there is a considerable risk that there is a change in price- and wage-setting psychology which unanchors inflation expectations, thus making the job of returning to price stability a lot more difficult. The board stated that it is important to avoid a wage-price spiral.

Surprisingly, the inflation comments in the meeting statement were unchanged. It continued to say that global factors “explain much” of why inflation is “too high”. There was no alteration to reflect the broadening of inflation pressures and the acceleration of the domestic components in the Q3 CPI data.

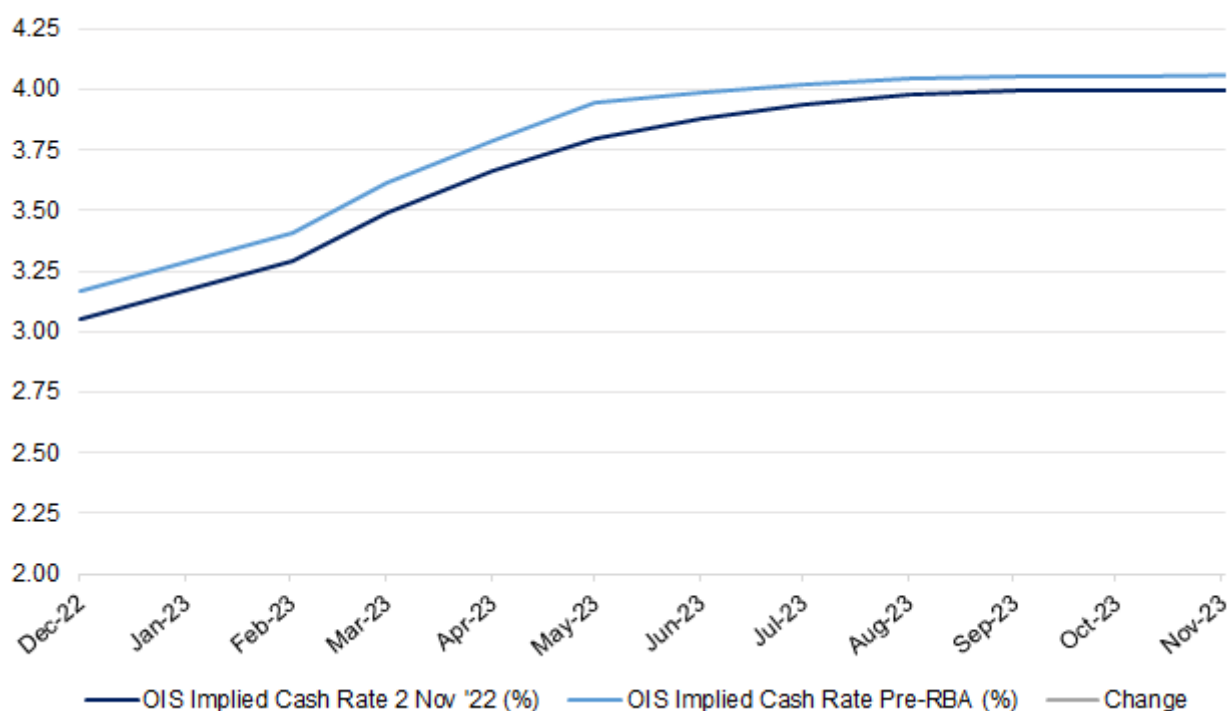
Governor Lowe said after the meeting that “rates will need to go higher still to bring inflation back to target” and returned to “we are not on a pre-set path”. The meeting statement and his comments reiterate that the Board will do whatever “the situation requires”, which could either be pausing or increasing the tightening pace back to 50bp.

The upward revision to its inflation forecasts until the end of 2024 alongside the pivot to 25bp moves suggests that the RBA is prepared to take time to bring inflation back to target so that it can keep the “economy on an even keel”. As such this reflects the downgraded growth outlook and the importance of monetary policy lags to the Board, which are assumed to be about three months. As a result, this tightening cycle could be prolonged with possible pauses in between rate increases. We expect a further 25bp hike at the December 6 meeting and then again at the first meeting for 2023 on February 7. Beyond that will depend on the household and global “incoming data.”

Post-Meeting RBA Dated OIS Pricing

Terminal rate pricing adjusted slightly lower in the wake of the meeting, as the RBA hiked the cash rate by 25bp as was widely expected, with the unwind of the residual pricing surrounding the potential for a larger hike (32bp of tightening was priced into OIS pre-decision) and the more explicit references to the lagged impact of monetary policy and degree of tightening already implemented providing some modest downward pressure to OIS. Terminal rate pricing now sits at ~4.00%, marginally below levels seen pre-meeting. We had argued that terminal rate pricing above 4.00% looked overdone given the level of debt in the Australian economy, next year's mortgage refinancing schedule, the swift round of rate hikes already deployed and the scheduled roll off of the RBA's TFF scheme in '23, which will result in plenty of real monetary tightening.

RBA Meeting	OIS Implied Cash Rate 2 Nov '22 (%)	OIS Implied Cash Rate Pre-RBA (%)	Change
Dec-22	3.06	3.17	-0.11
Feb-23	3.29	3.41	-0.12
Mar-23	3.49	3.61	-0.12
Apr-23	3.67	3.79	-0.13
May-23	3.80	3.94	-0.15
Jun-23	3.88	3.99	-0.11
Jul-23	3.94	4.02	-0.08
Aug-23	3.97	4.04	-0.07
Sep-23	3.99	4.06	-0.06
Oct-23	4.00	4.06	-0.06
Nov-23	4.00	4.06	-0.07



RBA 1 November 2022 Meeting Statement

At its meeting today, the Board decided to increase the cash rate target by 25 basis points to 2.85 per cent. It also increased the interest rate on Exchange Settlement balances by 25 basis points to 2.75 per cent.

As is the case in most countries, inflation in Australia is too high. Over the year to September, the CPI inflation rate was 7.3 per cent, the highest it has been in more than three decades. Global factors explain much of this high inflation, but strong domestic demand relative to the ability of the economy to meet that demand is also playing a role. Returning inflation to target requires a more sustainable balance between demand and supply.

A further increase in inflation is expected over the months ahead, with inflation now forecast to peak at around 8 per cent later this year. Inflation is then expected to decline next year due to the ongoing resolution of global supply-side problems, recent declines in some commodity prices and slower growth in demand. Medium-term inflation expectations remain well anchored, and it is important that this remains the case. The Bank's central forecast is for CPI inflation to be around 4¾ per cent over 2023 and a little above 3 per cent over 2024.

The Australian economy is continuing to grow solidly and national income is being boosted by a record level of the terms of trade. Economic growth is expected to moderate over the year ahead as the global economy slows, the bounce-back in spending on services runs its course, and growth in household consumption slows due to tighter financial conditions. The Bank's central forecast for GDP growth has been revised down a little, with growth of around 3 per cent expected this year and 1½ per cent in 2023 and 2024.

The labour market remains very tight, with many firms having difficulty hiring workers. The unemployment rate was steady at 3.5 per cent in September, around the lowest rate in almost 50 years. Job vacancies and job ads are both at very high levels, although employment growth has slowed over recent months as spare capacity in the labour market has been absorbed. The central forecast is for the unemployment rate to remain around its current level over the months ahead, but to increase gradually to a little above 4 per cent in 2024 as economic growth slows.

Wages growth is continuing to pick up from the low rates of recent years, although it remains lower than in many other advanced economies. A further pick-up is expected due to the tight labour market and higher inflation. Given the importance of avoiding a prices-wages spiral, the Board will continue to pay close attention to both the evolution of labour costs and the price-setting behaviour of firms in the period ahead.

Price stability is a prerequisite for a strong economy and a sustained period of full employment. Given this, the Board's priority is to return inflation to the 2–3 per cent range over time. It is seeking to do this while keeping the economy on an even keel. The path to achieving this balance remains a narrow one and it is clouded in uncertainty.

One source of uncertainty is the outlook for the global economy, which has deteriorated over recent months. Another is how household spending in Australia responds to the tighter financial conditions. The Board recognises that monetary policy operates with a lag and that the full effect of the increase in interest rates is yet to be felt in mortgage payments. Higher interest rates and higher inflation are putting pressure on the budgets of many households. Consumer confidence has also fallen and housing prices have been declining following the earlier large increases. Working in the other direction, people are finding jobs, gaining more hours of work and receiving higher wages. Many households have also built up large financial buffers and the saving rate remains higher than it was before the pandemic.

The Board has increased interest rates materially since May. This has been necessary to establish a more sustainable balance of demand and supply in the Australian economy to help return inflation to target. The Board expects to increase interest rates further over the period ahead. It is closely monitoring the global economy, household spending and wage and price-setting behaviour. The size and timing of future interest rate increases will continue to be determined by the incoming data and the Board's assessment of the outlook for inflation and the labour market. The Board remains resolute in its determination to return inflation to target and will do what is necessary to achieve that.

MNI RBA WATCH: Hikes 25bp, To Miss Inflation Target Until 2025

By Robert Guy

The Reserve Bank of Australia admitted inflation will not fall back into its target band until 2025 as it appears on track to deliver another 25bp hike at its final meeting of the year after warning of a peak in inflation of "around" 8% later this year.

The [Cash Rate was raised 25bp to 2.85%](#) on Tuesday, the highest level since early 2013, as policymakers warned this year's inflation peak would surpass August's forecast of 7.75%. The inflationary impulse is set to cascade into 2023, when the Bank now expects CPI at 4.75% over the year rather than 4.25% as forecast in August. Importantly, inflation was seen to ease gradually "to a little above 3%" over 2024, above the top end of RBA's 2%-3% target range. Inflation rose to a hotter-than-expected 7.3% y/y rate in the September quarter, a 32-year high. (See [MNI BRIEF: Aussie 3Q CPI Shock Ups RBA Terminal Rate Forecasts](#))

Ahead of Friday's release of its Statement on Monetary Policy, the RBA revealed its growth forecasts had been "revised down a little", testament to the expected impact of a cumulative 275bps in hikes since May - and possibly more to come - in the most aggressive tightening cycle since the 1990s. The growth outlook was pared to "around" 3% in 2022, compared to August's 3.25% call, while estimates for 2023 and 2024 were both trimmed to 1.5% from 1.75%.

Despite some calls for a 50bp rise at Tuesday's meeting, Governor Philip Lowe fell back on the reasons he used when downshifting to 25bps at October's meeting after four consecutive 50bp hikes. He noted rates had increased "materially" since May and acknowledged that monetary policy operates with a lag with the full effect "yet to be felt."

DEBATE OVER PAUSE

Combined with concerns about the global economy that has deteriorated "over recent months", there is growing debate over when the RBA may pause to assess the impact of its tightening campaign. Deputy Governor Michele Bullock said on Oct 18 that its ability to meet 11 times a year - there is no meeting in January - is an "advantage in uncertain times", adding the RBA "can potentially move much faster than overseas central banks." (See [MNI BRIEF: RBA Can Move As Fast As Other Banks - Bullock](#)).

Market-based pricing of the RBA's prospective rate path softened slightly after Tuesday's meeting. Another 25bp is seen in December, while pricing for the terminal rate was wound back to under 4% from last week's levels which saw a rate above 4% in late 2023. (See [STIR : RBA Dated OIS Lower On 25bp Hike & Bank Noting Material Increase In Cash Rates Has Been Deployed](#)). The bank's first meeting of 2023 is on Feb 7 and a 25bp hike is only about 80% priced in, assuming a 25bp hike is delivered in December.

The Australian dollar fell from intra-day highs after the announcement, as 25bps was widely expected by the market. The aussie rallied across the Asian session and recently fetched 0.6440. (See [AUD : A\\$ Dips Post RBA](#)).

Sell-Side Analyst Views

ANZ: The RBA delivered the expected 25bp rate rise in November. We maintain our view of a further 25bp hike in December and an eventual peak in the cash rate of 3.85% in May. The RBA's updated forecasts have inflation above the top of its target band for more than three full years, ie beyond the end of 2024. This must pose some risk to medium-term inflation expectations, and the possibility that they become unanchored. The RBA is conscious of this.

- Critical for policy choices in the months ahead will be "avoiding a prices-wages spiral." With this in mind: The Board will continue to pay close attention to both the evolution of labour costs and the price-setting behaviour of firms in the period ahead. Wages will be the key data release in November and through much of 2024.
- The RBA Board is still very focused on "keeping the economy on an even keel" as it looks "to return inflation to the 2-3 per cent range over time." This comes at a cost, in terms of higher inflation for longer. Inflation is "now forecast to peak at around 8 per cent later this year." More importantly: The Bank's central forecast is for CPI inflation to be around 4¾percent over 2023 and a little above 3percent over 2024.
- Importantly, the Board is mindful "that monetary policy operates with a lag." This suggests it will be very difficult for the RBA to return to 50bp rate hikes unless clear evidence of a price-wage spiral emerges.
- The last paragraph of the statement notes that "the Board has increased interest rates materially since May." But the tightening cycle is not over, with the Board "expect[ing] to increase interest rates further over the period ahead." It then finishes in the same manner as the October statement.

Barclays: The RBA hiked by 25bp again, signalling that growth risks are no longer materially below inflation risks. We expect only one more 25bp hike in December, with downside risks from a slowing global economy and moderating household consumption increasing the "uncertainty" the RBA sees around its future policy path.

- The Reserve Bank of Australia (RBA) increased its cash rate by 25bp to 2.85%, in line with our forecast and consensus expectations, after having pivoted to smaller hikes last month. Overall, the RBA has hiked rates by 275bp this year. The bank also increased the interest rate on Exchange Settlement Balances by 25bp to 2.75%.
- We think today's 25bp increase shows that growth risks are now being better balanced against inflation risks for the RBA, given that the board has already factored in high inflation and growth is now the more uncertain factor.
- The statement also noted that, along with incoming data, the board will be guided by its assessment of the outlook for inflation and the labour market. The bank's new forecast for inflation is 4.75% for 2023, compared with 4.00% earlier. Still, we think the higher price forecast needs to be seen in conjunction with the bank's outlook for growth, given its repeated intention to keep the economy on an even keel.
- The bank now expects growth to moderate to 1.5% in 2023 and 2024, compared with 1.75% earlier, while its growth forecast for this year was reduced marginally.
- We continue to expect one more 25bp hike in December, by when the bank will have a clear idea of Q3 growth (released a day after the meeting) and therefore a better assessment of the economy. We expect the cash rate to end at 3.10% in this cycle. This is because the first meeting in 2023 will only be in February, by which time we think the global economic outlook may have deteriorated further, the RBA will likely see stronger signs of a decline in inflation (especially with monthly releases) and risks that global central banks ease their hawkish rhetoric before then is also high.

CBA: The RBA Board today increased the cash rate target by 25bp to 2.85%, as was expected by us and most analysts. It was the seventh consecutive monthly increase in the cash rate.

- The RBA now forecasts inflation to peak at 8.0% in late 2022, and to be 4¾% in 2023 and a little above 3% in 2024.
- The RBA have downgraded their GDP forecast for 2023 and 2024 to 1.5% in each year. The unemployment rate is expected to increase gradually to a little over 4% in 2024 (this is lower than the Commonwealth Government's forecast of 4.5% in mid-2024).

- The RBA have delivered a massive amount of tightening in a short space of time. The RBA's 25bp interest rate hike today means that they have taken the cash rate up by 275bp between 4 May and 1 November.
- Inflation is now forecast to peak at around 8% in late 2022 – this was the forecast upgrade we anticipated in our preview. We did not expect the RBA to forecast a number larger than 8% for their peak in inflation largely because the Q3 22 headline CPI printed broadly in line with their implied profile. The upside surprise was on the underlying CPI. No reference was made to underlying inflation in the Governor's Statement.
- Monetary policy of course operates with a lag, particularly in terms of how it impacts price changes in the economy. The impact of policy tightening will impact consumer inflation in 2023 and 2024.
- The rest of the Governor's Statement today was broadly similar to his Statement accompanying the October Board decision.
- Our central scenario for the RBA is unchanged following today's decision. We expect the Board to deliver one further 25bp rate hike in December which would take the cash rate to 3.10% (our expectation for the peak in the cash rate). The risk sits with a higher terminal rate, but we continue to look for rate cuts in H2 2023 and favour 50bp of easing towards the end of 2023.
- Finally we note that the resilience in the consumer so far through the tightening cycle should not be too surprising. Many households had built up significant savings. And there was plenty of pent up demand following two years of rolling lockdowns. It takes time for rate hikes to impact home borrower cash flow and by extension spending decisions.

Goldman Sachs: The RBA increased the cash rate +25bp to 2.85% at November's Board meeting, in line with expectations (20/22 economists expected +25bp, including GS). The forward guidance in the attending statement was broadly unchanged, with the Board noting it 'expects to increase interest rates further over the period ahead'.

- Ahead of Friday's Statement on Monetary Policy, the RBA flagged it had upgraded its headline inflation forecasts to end 2023 (4.75%; prev: 4.3%) and end 2024 ('a little above 3%'; prev: 3.0%). GDP growth was also revised ~25bp/pa lower over the next couple of years.
- In our view, the RBA's decision not to reaccelerate the pace of monetary tightening following the large upside surprise to Q3 CPI underscores a relatively high bar to return to 50bp rate hikes. Absent an unexpected break-out in either wages growth or inflation expectations, we expect the RBA to continue with a series of 25bp rate hikes over Dec/Feb/Mar - to a terminal rate of 3.60%. We view the risk as skewed to a more elongated tightening cycle through 2023. ■

ING: The RBA chose to stick to the moderate pace of tightening that it started in October, despite the recent inflation surge. Forthcoming wage price data ought to be important to future tightening, but may not be.

- In the face of the surge in 3Q22 headline inflation to 7.3% from 6.1% in 2Q22, a quarter-on-quarter increase that showed no signs of a slowdown, you could be forgiven for thinking that this decision didn't really reflect the flow of incoming data all that much. Instead, it seems like a much greater weight was given to the notion expressed in Governor Lowe's speech on 16 September that "At some point, it will be appropriate to slow the rate of increase in interest rates and the case for doing that becomes stronger as the level of interest rates increases".
- It is probably all 25bp from here until the peak. It is possible to imagine that the run of data from now on will indeed determine how the RBA responds as it takes the cash rate closer to its eventual peak. But today's decision suggests otherwise. Instead, it looks more probable now that the RBA will simply stick to a 25bp rate increase pace until it believes it has taken rates high enough. That may be soon into the New Year when rates hit 3.35% or 3.6%.

J.P.Morgan: The RBA board hiked the cash target rate and IOER by 25bp at today's meeting, to 2.85% and 2.75%, as expected. Markets had priced some chance of a 50bp move (roughly 30bp). After last week's CPI result this is a strong demonstration that the RBA is acting more in level-dependent than data-dependent fashion. That is, the board seems to have a fairly strong prior regarding where the cash rate should get to, near term. It is then willing to wait for policy (and other) lags to play out after that, rather than continuing to tighten until the full effect is

seen, and by which time too much may have been done. Lags were mentioned explicitly in the statement, as was the fact that the cash rate has increased “materially” since May.

- As before, the guidance looks for a further “increase...over the period ahead”. We still expect a 25bp hike in December before an extended pause. The higher rates go, the higher the hurdle the data have to clear to justify ratcheting back up to 50s. With CPI out of the way, the wage data in two weeks are the most notable data point before the December meeting and we don’t see the 3Q reading clearing the higher hurdle implicitly set today. That locks in some persistence to the 25bp increments from here.
- The statement previews the forecast revisions coming in the SoMP, which not surprisingly show an upward bias on inflation. This is still mostly pegged on “global factors”, but with strength in domestic demand “also playing a role.” Turning back to the discussion of lags, this also suggests not setting monetary policy so as to squash any other temporary impulses that would have been resolved anyway. Good examples cited today are the post-lockdown bounce-back in services spending which will moderate, tailwinds from the global economy which are now fading, and the impact of “financial conditions” on households. We interpret the last of these as the erosion of the saving rate buffer, which will over time force consumption growth back in line with income growth.

Morgan Stanley: The RBA continued with a slower pace of tightening in November, despite raising its inflation path above target through to end-24. The lagged impact of “material” prior hikes was emphasised, balanced against the risk of a wage-price spiral. Further tightening was flagged.

- The RBA modestly downgraded its central forecasts for GDP as part of its quarterly forecast update, cutting 2022 from 3.2% to 3% and 2023 & 2024 from 1.75% to 1.5%. Unemployment forecast was also raised from 4% to “a little above 4%” in 2024. Despite these modest changes the RBA appears concerned about the downside risks - citing the weaker global economy, and declines in consumer sentiment and house prices as concerns.
- The flipside of the balanced growth outlook is that the RBA has raised its inflation forecast materially across its forecast horizon. The peak in inflation is now expected to be 8% (from 7.8%) with end 2023 raised from 4% to 4.75%. Importantly, inflation is now expected to be “a little above 3%” by the end of 2024 - in other words the RBA is no longer expecting inflation to return to target over its forecast horizon.
- Relatively contained wage growth looks to be the key reason the RBA is comfortable that inflation expectations remain anchored.
- While the RBA noted that the “size and timing” of hikes continues to be data dependent - the inference of this meeting post the strong Q3 CPI print last week is that the bar for any re-acceleration in pace of tightening is high. We expect further 25bp hikes at the Dec, Feb & Mar meetings, to a terminal rate of 3.6%. Clearer evidence of a peak in inflation alongside deterioration in spending and the labour market will be key for an RBA pause.

NAB: The RBA raised interest rates by 25bps for the second consecutive Board meeting as widely expected by market economists. Given the upside surprise to inflation revealed in Q3, there was some chance the RBA might opt for a larger 50bps increase. The text of today’s statement emphasizes the lags in monetary policy and the material increase in interest rates since May. Along with the Board’s intention to increase interest rates further over the period ahead, this likely supports the continuation of rate rises of 25bps increments. NAB forecasts further 25bps increases in December, February, and March, to take the cash rate to 3.6%.

- The recent smaller sized rate rises in Australia relative to other countries likely reflects a combination of factors: monthly meetings for the RBA, that much of the inflation is not domestically sourced, importantly that wages in Australia continue to be better behaved than in other countries; that Australia’s mortgage market is predominantly variable (or relatively short term, fixed rate loans). In combination with Australia’s high level of housing debt, this in theory makes monetary policy extremely effective and suggests the peak (or terminal) cash rate in Australia will be lower than in the US.
- With an upside surprise to inflation, but the RBA continuing to raise interest rates by 25bps, it seems likely that there is a very high hurdle to return to a larger 50bps increment for rate rises. The Board continues to watch wages and price-setting behaviour closely, with a rise in wages above 4% y/y, were it to occur, likely to be problematic for the RBA, though this could be addressed by extending the string of 25bps increases.

RBC: The RBA delivered its 7th consecutive hike following its Nov board meeting, lifting the cash rate by another 25bp to 2.85% in line with our and the market's expectations. Amid some market discussion of a 50bp move following the stronger-than-expected Q3 CPI last week, the decision and statement erred slightly dovish although further tightening is likely. Having stepped down the pace of tightening last month to 25bp following 4 consecutive 50bp moves, another 25bp today reinforced the moderation in the pace of tightening consistent with its communication over the last month and the emerging shift from a number of global central banks.

- While possible discussion around the merits of a 50bp hike today could emerge in the minutes to be released in 2 weeks, we suspect that both the shifting global central bank backdrop and the RBA's own communication in recent weeks would have made such an option very difficult.
- Another 25bp at the December meeting remains our base case though we continue to think the risk to our terminal forecast of 3.1% lies to the upside. Resilience, particularly, in household consumption and strength of its balance sheet, is key in our thinking and perhaps even more so than elevated and still rising inflation. The onus will be on some signs of policy traction, particularly in household activity, for the RBA to finish this cycle or at least pause early in the new year.

TD Securities: Today's Statement read dovish compared with our expectations heading into today's meeting. The RBA made it clear that hiking in 25bps clips is its preferred mode of action, reinforcing its stance made since its August meeting to slow the pace of hikes. RBA scenario analysis of mortgage portfolios assumes 300bps of hikes implying a cash rate of at least 3.10%. Looking at RBA-Fed cash rate differentials implies a RBA target cash rate between 3.50-3.75%. We retain our call for a terminal RBA cash rate of 3.60% but see upside risks to this call.

- The Minutes of the RBA October meeting indicated the decision between a 25bps and 50bps hike was evenly balanced but our sense on reading the November Statement does not suggest today's decision was as even a contest as the October decision.
- The Board noted that the increase in interest rates since May has been "material". Inserting "material" is a new addition.
- The Bank removed reference to the unemployment rate falling further over coming months.
- The mild uplift in CPI forecasts pose no threat to the Bank's Flexible Inflation Targeting framework. The fact that the RBA does not expect inflation to fall within its 2-3% target range over its forecast horizon yet is slowing the pace of hikes could imply the Bank is prioritising growth over inflation.
- Of course, there is a risk that the RBA may need to hike the cash rate more aggressively next year (ie 50bps), but that most likely would coincide with the risk that a 'prices-wage spiral' develops, or if there is an ongoing surge in inflation expectations next year. Our base case is for inflation to remain elevated.
- We stick with our 3.60% terminal RBA target cash rate call with 25bps hikes to be delivered next month and at its Feb'23 and Mar'23 meetings.

Westpac: The Board decided to stick with the 25 basis point path despite a significant lift in the inflation forecast for 2023. This result was widely predicted by the market and analysts. It now seems that the Board is prepared to await the impact of the series of hikes at that risk of embedding an inflation psychology in the system which would eventually require a much more damaging policy response.

- The Board recognised the unwelcome boost to inflation pressures by lifting the forecast for inflation in 2022 from 7.8% to 8.0% and the forecast for 2023 from 4.3% to 4.75%. The 2023 forecast increase is particularly troubling – a central bank which has a 2-3% inflation target and accepts that 4.75% inflation in the following policy year runs the risk of embedding an inflationary psychology for both businesses and employees making it more difficult to avoid an even more extended period of high inflation.
- Despite the Board not moving by 50 basis points today we think this higher inflation profile justifies maintaining the 3.85% terminal rate forecast. Given that the Board chose not to respond to the inflation shock with more than 25 basis points we can only conclude that as rates continue to rise the increments will be 25 basis points.
- We expect that the March quarter Inflation Report which will print in late April will require a further rate increase. Going forward we now expect 25 basis point increments in December; February; March and May.
- The final paragraph continues to emphasise that "The size and timing of interest rate increases will continue to be determined by the incoming data and the outlook for inflation and the labour market." Based on the decision to hold the increase to 0.25% at the November meeting this "incoming data" condition looks to be a very high hurdle.